

LENOX MUNICIPAL UTILITIES
INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
YEARS ENDED DECEMBER 31, 2011 AND 2010

LENOX MUNICIPAL UTILITIES

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LENOX MUNICIPAL UTILITIES
Officials
December 31, 2011

<u>Trustees</u>	<u>Title</u>	<u>Term Expires</u>
Dennis Bunch	Trustee - Chairman	May 1, 2014
Wayne Haidsiak	Trustee	May 1, 2014
Kathy Arevalo	Trustee	May 1, 2016
Norbert Bradley	Trustee	May 1, 2016
Jake Tripp	Trustee	May 1, 2012
Keith Bennett	Superintendent	

Gronewold, Bell, Kyhnn & Co. P.C.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Lenox Municipal Utilities
Lenox, Iowa

We have audited the accompanying balance sheets of Lenox Municipal Utilities (a component unit of the City of Lenox, Iowa) as of December 31, 2011, and the related statements of revenues, expenses and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Utilities' management. Our responsibility is to express opinions on these financial statements based on our audit. The financial statements of Lenox Municipal Utilities as of December 31, 2010, were audited by another auditor whose report dated February 9, 2011, expressed unqualified opinions on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lenox Municipal Utilities as of December 31, 2011, and the results of its operations, changes in net assets, and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated March 2, 2012 on our consideration of Lenox Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

To the Board of Trustees
Lenox Municipal Utilities

The Utilities has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements. The Budgetary Comparison Schedule on page 27 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Garnett, Ben, Kyhn & Co., P.C.

Atlantic, Iowa
March 2, 2012

LENOX MUNICIPAL UTILITIES
Balance Sheets
December 31, 2011

ASSETS

	<u>Electric</u>	<u>Water</u>	<u>Communication</u>	<u>Combined Memorandum Only</u>
Capital Assets - net of depreciation	\$ 1,641,367	\$ 1,179,865	\$ 1,268,959	\$ 4,090,191
Special Purpose Funds:				
Restricted funds	123,400	141,780	35,057	300,237
Board designated funds	<u>1,218,196</u>	<u>146,449</u>	<u>11,387</u>	<u>1,376,032</u>
Total special purpose funds	1,341,596	288,229	46,444	1,676,269
Current Assets:				
Cash	65,551	37,785	44,690	148,026
Accounts receivable	100,501	53,889	11,418	165,808
Inventory	111,054	--	--	111,054
Prepaid expenses	12,217	2,523	1,508	16,248
Note receivable - Communication	--	--	--	--
Accrued interest receivable	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total current assets	289,323	94,197	57,616	441,136
Other Assets:				
Debt issue cost	<u>--</u>	<u>--</u>	<u>16,139</u>	<u>16,139</u>
Total assets	<u>\$ 3,272,286</u>	<u>\$ 1,562,291</u>	<u>\$ 1,389,158</u>	<u>\$ 6,223,735</u>

LIABILITIES AND NET ASSETS (DEFICIT)

Long-Term Debt, less current maturities	\$ 60,000	\$ 842,000	\$ 1,540,000	\$ 2,442,000
Current Liabilities:				
Current maturities of long-term debt	60,000	44,000	--	104,000
Accounts payable	79,709	33,484	2,993	116,186
Accrued employee compensation	7,551	5,084	1,167	13,802
Accrued expenses	--	--	--	--
Note payable - Electric	--	--	--	--
Accrued interest	<u>805</u>	<u>2,257</u>	<u>5,134</u>	<u>8,196</u>
Total current liabilities	148,065	84,825	9,294	242,184
Other Liabilities:				
Consumer deposits	<u>21,029</u>	<u>--</u>	<u>--</u>	<u>21,029</u>
Total liabilities	229,094	926,825	1,549,294	2,705,213
Net Assets (Deficit):				
Restricted - expendable	123,400	141,780	35,057	300,237
Invested in capital assets net of related debt	1,521,367	293,865	(254,902)	1,560,330
Unrestricted	<u>1,398,425</u>	<u>199,821</u>	<u>59,709</u>	<u>1,657,955</u>
Total net assets (deficit)	3,043,192	635,466	(160,136)	3,518,522
Total liabilities and net assets	<u>\$ 3,272,286</u>	<u>\$ 1,562,291</u>	<u>\$ 1,389,158</u>	<u>\$ 6,223,735</u>

The accompanying notes are an integral part of these statements.

LENOX MUNICIPAL UTILITIES
Balance Sheets
December 31, 2010

ASSETS

	<u>Electric</u>	<u>Water</u>	<u>Communication</u>	<u>Combined Memorandum Only</u>
Capital Assets - net of depreciation	\$ 1,744,822	\$ 1,269,333	\$ 1,353,135	\$ 4,367,290
Special Purpose Funds:				
Restricted funds	117,200	125,515	--	242,715
Board designated funds	892,796	146,349	163,341	1,202,486
Total special purpose funds	1,009,996	271,864	163,341	1,445,201
Current Assets:				
Cash	44,978	23,555	42,731	111,264
Accounts receivable	142,940	48,705	11,516	203,161
Inventory	90,323	--	--	90,323
Prepaid expenses	13,794	2,406	957	17,157
Note receivable - Communication	175,000	--	--	175,000
Accrued interest receivable	1,467	--	--	1,467
Total current assets	468,502	74,666	55,204	598,372
Other Assets:				
Debt issue cost	--	--	--	--
Total assets	<u>\$ 3,223,320</u>	<u>\$ 1,615,863</u>	<u>\$ 1,571,680</u>	<u>\$ 6,410,863</u>

LIABILITIES AND NET ASSETS

Long-Term Debt, less current maturities	\$ 120,000	\$ 886,000	\$ --	\$ 1,006,000
Current Liabilities:				
Current maturities of long-term debt	55,000	43,000	1,335,000	1,433,000
Accounts payable	89,116	28,712	41,399	159,227
Accrued employee compensation	--	--	--	--
Accrued expenses	3,904	657	349	4,910
Note payable - Electric	--	--	175,000	175,000
Accrued interest	1,149	2,367	9,255	12,771
Total current liabilities	149,169	74,736	1,561,003	1,784,908
Other Liabilities:				
Consumer deposits	22,873	--	--	22,873
Total liabilities	292,042	960,736	1,561,003	2,813,781
Net Assets:				
Restricted - expendable	117,200	125,515	--	242,715
Invested in capital assets net of related debt	1,569,822	340,333	(156,865)	1,753,290
Unrestricted	1,244,256	189,279	167,542	1,601,077
Total net assets	2,931,278	655,127	10,677	3,597,082
Total liabilities and net assets	<u>\$ 3,223,320</u>	<u>\$ 1,615,863</u>	<u>\$ 1,571,680</u>	<u>\$ 6,410,863</u>

The accompanying notes are an integral part of these statements.

LENOX MUNICIPAL UTILITIES
Statements of Revenues, Expenses and Changes in Net Assets
Year ended December 31, 2011

	<u>Electric</u>	<u>Water</u>	<u>Communication</u>	<u>Combined Memorandum Only</u>
Operating Revenues:				
Current use charges	\$ 1,600,869	\$ 704,164	\$ 499,403	\$ 2,804,436
Miscellaneous and rentals	<u>31,644</u>	<u>18,921</u>	<u>--</u>	<u>50,565</u>
Total operating revenues	<u>1,632,513</u>	<u>723,085</u>	<u>499,403</u>	<u>2,855,001</u>
Operating Expenses:				
Administrative	122,539	50,931	219,204	392,674
Sales and use taxes	32,953	21,746	13,629	68,328
Payroll and payroll taxes	282,707	116,169	66,460	465,336
Office expense	13,618	5,768	6,185	25,571
Repairs and maintenance	13,976	3,645	--	17,621
Plant expense	842,383	415,558	275,936	1,533,877
Distribution expense	102,934	17,045	--	119,979
Bad debts	2,143	773	2,210	5,126
Depreciation	<u>103,455</u>	<u>89,468</u>	<u>46,021</u>	<u>238,944</u>
Total operating expenses	<u>1,516,708</u>	<u>721,103</u>	<u>629,645</u>	<u>2,867,456</u>
Operating Income (Loss)	115,805	1,982	(130,242)	(12,455)
Non-Operating Revenues (Expenses):				
Interest income	1,627	253	290	2,170
Interest expense	(5,518)	(27,115)	(36,250)	(68,883)
Amortization of debt issue cost	<u>--</u>	<u>--</u>	<u>(4,611)</u>	<u>(4,611)</u>
Non-Operating Expenses, net	<u>(3,891)</u>	<u>(26,862)</u>	<u>(40,571)</u>	<u>(71,324)</u>
Changes in Net Assets Before Transfers	111,914	(24,880)	(170,813)	(83,779)
Transfers from City	<u>--</u>	<u>5,219</u>	<u>--</u>	<u>5,219</u>
Changes in Net Assets	111,914	(19,661)	(170,813)	(78,560)
Net Assets, Beginning of Year	<u>2,931,278</u>	<u>655,127</u>	<u>10,677</u>	<u>3,597,082</u>
Net Assets, End of Year	<u>\$ 3,043,192</u>	<u>\$ 635,466</u>	<u>\$ (160,136)</u>	<u>\$ 3,518,522</u>

The accompanying notes are an integral part of these statements.

LENOX MUNICIPAL UTILITIES
Statements of Revenues, Expenses and Changes in Net Assets
Year ended December 31, 2010

	Electric	Water	Communication	Combined Memorandum Only
Operating Revenues:				
Current use charges	\$ 1,678,363	\$ 649,086	\$ 435,367	\$ 2,762,816
Miscellaneous and rentals	35,457	11,849	--	47,306
Total operating revenues	<u>1,713,820</u>	<u>660,935</u>	<u>435,367</u>	<u>2,810,122</u>
Operating Expenses:				
Administrative	151,123	60,759	155,653	367,535
Sales and use taxes	33,902	20,049	13,330	67,281
Payroll and payroll taxes	274,217	125,992	64,298	464,507
Office expense	14,467	4,670	5,618	24,755
Repairs and maintenance	8,117	3,717	95	11,929
Plant expense	888,930	348,212	107,496	1,344,638
Distribution expense	41,828	15,401	--	57,229
Bad debts	2,202	638	1,666	4,506
Depreciation	124,899	89,719	54,138	268,756
Total operating expenses	<u>1,539,685</u>	<u>669,157</u>	<u>402,294</u>	<u>2,611,136</u>
Operating Income (Loss)	174,135 (8,222)	33,073	198,986
Non-Operating Revenues (Expenses):				
Interest income	2,880	335	459	3,674
Interest expense	(7,543)	(28,381)	(48,192)	(84,116)
Amortization of debt issue cost	--	--	--	--
Non-Operating Expenses, net	<u>(4,663)</u>	<u>(28,046)</u>	<u>(47,733)</u>	<u>(80,442)</u>
Changes in Net Assets Before Transfers	169,472	(36,268)	(14,660)	118,544
Transfers from City	--	7,308	--	7,308
Changes in Net Assets	169,472	(28,960)	(14,660)	125,852
Net Assets, Beginning of Year	<u>2,761,806</u>	<u>684,087</u>	<u>25,337</u>	<u>3,471,230</u>
Net Assets, End of Year	<u>\$ 2,931,278</u>	<u>\$ 655,127</u>	<u>\$ 10,677</u>	<u>\$ 3,597,082</u>

The accompanying notes are an integral part of these statements.

LENOX MUNICIPAL UTILITIES
Statements of Cash Flows
Year ended December 31, 2011

	<u>Electric</u>	<u>Water</u>	<u>Communication</u>	<u>Combined Memorandum Only</u>
Cash flows from operating activities:				
Cash received from consumers	\$ 1,641,165	\$ 698,207	\$ 497,291	\$ 2,836,663
Cash paid to suppliers	(1,198,259)	(523,739)	(524,888)	(2,246,886)
Cash paid to employees	(237,765)	(98,041)	(56,510)	(392,316)
Other operating revenue	<u>31,644</u>	<u>18,921</u>	<u>--</u>	<u>50,565</u>
Net cash provided by (used in) operating activities	236,785	95,348	(84,107)	248,026
Cash flows from noncapital financing activities:				
Transfers from City	--	5,219	--	5,219
Consumer deposits, net	<u>(1,844)</u>	<u>--</u>	<u>--</u>	<u>(1,844)</u>
Net cash provided by (used in) noncapital financing activities	(1,844)	5,219	--	3,375
Cash flows from capital and related financing activities:				
Principal payments	(55,000)	(43,000)	(1,510,000)	(1,608,000)
Proceeds from notes payable	--	--	1,519,250	1,519,250
Interest paid	(5,862)	(27,225)	(40,371)	(73,458)
Capital expenditures	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Net cash used in capital and related financing activities	(60,862)	(70,225)	(31,121)	(162,208)
Cash flows from investing activities:				
Note receivable collected	175,000	--	--	175,000
Income from investments	<u>3,094</u>	<u>253</u>	<u>290</u>	<u>3,637</u>
Net cash provided by investing activities	<u>178,094</u>	<u>253</u>	<u>290</u>	<u>178,637</u>
Net increase (decrease) in cash	352,173	30,595	(114,938)	267,830
Cash at beginning of year	<u>1,054,974</u>	<u>295,419</u>	<u>206,072</u>	<u>1,556,465</u>
Cash at end of year	<u>\$ 1,407,147</u>	<u>\$ 326,014</u>	<u>\$ 91,134</u>	<u>\$ 1,824,295</u>
Reconciliation of cash to the statements of net assets:				
Cash in current assets	\$ 65,551	\$ 37,785	\$ 44,690	\$ 148,026
Cash in special purpose funds	<u>1,341,596</u>	<u>288,229</u>	<u>46,444</u>	<u>1,676,269</u>
Total cash	<u>\$ 1,407,147</u>	<u>\$ 326,014</u>	<u>\$ 91,134</u>	<u>\$ 1,824,295</u>

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LENOX MUNICIPAL UTILITIES
Statements of Cash Flows - Continued
Year ended December 31, 2011

	<u>Electric</u>	<u>Water</u>	<u>Communication</u>	<u>Combined Memorandum Only</u>
Reconciliation of income (loss) from operations to net cash provided by (used in) operating activities:				
Income (loss) from operations	\$ 115,805	\$ 1,982	\$(130,242)	\$(12,455)
Adjustments to reconcile income (loss) from operations to net cash provided by (used in) operating activities				
Depreciation	103,455	89,468	46,021	238,944
Bad debts	2,143	773	2,210	5,126
Change in assets and liabilities				
Receivable	40,296	(5,957)	(2,112)	32,227
Inventory	(20,731)	--	--	(20,731)
Prepaid expenses	1,577	(117)	(551)	909
Accounts payable, trade	(9,407)	4,772	(251)	(4,886)
Accrued expenses	(3,904)	(657)	(349)	(4,910)
Accrued employee compensation	7,551	5,084	1,167	13,802
Total adjustments	<u>120,980</u>	<u>93,366</u>	<u>46,135</u>	<u>260,481</u>
Net cash provided by (used in) operating activities	<u>\$ 236,785</u>	<u>\$ 95,348</u>	<u>\$(84,107)</u>	<u>\$ 248,026</u>

The accompanying notes are an integral part of these statements.

LENOX MUNICIPAL UTILITIES
Statements of Cash Flows
Year ended December 31, 2010

	<u>Electric</u>	<u>Water</u>	<u>Communication</u>	<u>Combined Memorandum Only</u>
Cash flows from operating activities:				
Cash received from consumers	\$ 1,668,199	\$ 645,577	\$ 429,757	\$ 2,743,533
Cash paid to suppliers	(1,172,662)	(468,138)	(388,103)	(2,028,903)
Cash paid to employees	(238,084)	(108,544)	(54,911)	(401,539)
Other operating revenue	<u>35,457</u>	<u>11,849</u>	<u>--</u>	<u>47,306</u>
Net cash provided by (used in) operating activities	292,910	80,744	(13,257)	360,397
Cash flows from noncapital financing activities:				
Transfers from City	--	7,308	--	7,308
Consumer deposits, net	<u>369</u>	<u>--</u>	<u>--</u>	<u>369</u>
Net cash provided by noncapital financing activities	369	7,308	--	7,677
Cash flows from capital and related financing activities:				
Principal payments	(55,000)	(41,000)	--	(96,000)
Proceeds from note payable	--	--	175,000	175,000
Interest paid	(7,868)	(28,486)	(46,725)	(83,079)
Capital expenditures	<u>--</u>	<u>--</u>	<u>(115,537)</u>	<u>(115,537)</u>
Net cash provided by (used in) capital and related financing activities	(62,868)	(69,486)	12,738	(119,616)
Cash flows from investing activities:				
Note receivable advance	(175,000)	--	--	(175,000)
Income from investments	<u>1,413</u>	<u>335</u>	<u>459</u>	<u>2,207</u>
Net cash provided by (used in) investing activities	(173,587)	335	459	(172,793)
Net increase (decrease) in cash	56,824	18,901	(60)	75,665
Cash at beginning of year	<u>998,150</u>	<u>276,518</u>	<u>206,132</u>	<u>1,480,800</u>
Cash at end of year	<u>\$ 1,054,974</u>	<u>\$ 295,419</u>	<u>\$ 206,072</u>	<u>\$ 1,556,465</u>
Reconciliation of cash to the statements of net assets:				
Cash in current assets	\$ 44,978	\$ 23,555	\$ 42,731	\$ 111,264
Cash in special purpose funds	<u>1,009,996</u>	<u>271,864</u>	<u>163,341</u>	<u>1,445,201</u>
Total cash	<u>\$ 1,054,974</u>	<u>\$ 295,419</u>	<u>\$ 206,072</u>	<u>\$ 1,556,465</u>

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LENOX MUNICIPAL UTILITIES
Statements of Cash Flows - Continued
Year ended December 31, 2010

	<u>Electric</u>	<u>Water</u>	<u>Communication</u>	<u>Combined Memorandum Only</u>
Reconciliation of income (loss) from operations to net cash provided by (used in) operating activities:				
Income (loss) from operations	\$ 174,135	\$(8,222)	\$ 33,073	\$ 198,986
Adjustments to reconcile income (loss) from operations to net cash provided by (used in) operating activities				
Depreciation	124,899	89,719	54,138	268,756
Bad debts	2,202	638	1,666	4,506
Change in assets and liabilities				
Receivable	(10,164)	(3,509)	(5,610)	(19,283)
Inventory	(1,206)	--	--	(1,206)
Prepaid expenses	(3,153)	1,718	775	(660)
Accounts payable, trade	6,231	1,255	(96,887)	(89,401)
Accrued expenses	(34)	(855)	(412)	(1,301)
Accrued employee compensation	--	--	--	--
Total adjustments	<u>118,775</u>	<u>88,966</u>	<u>(46,330)</u>	<u>161,411</u>
Net cash provided by (used in) operating activities	<u>\$ 292,910</u>	<u>\$ 80,744</u>	<u>\$(13,257)</u>	<u>\$ 360,397</u>

The accompanying notes are an integral part of these statements.

LENOX MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2011 and 2010

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

1. Reporting Entity

Lenox Municipal Utilities provides electricity, water, and communication services to the City of Lenox and the surrounding area. The Utilities are operated as a separate entity under the direction of a Board of Trustees. The members of the Board are appointed by the Mayor and approved by the City Council.

Lenox Municipal Utilities has been identified as a component unit of the City of Lenox, Iowa. The Utilities, for financial statement purposes, include all of the funds and account groups relevant to the operation of the electric, water and communication services. Lenox Municipal Utilities provides billing and collection services for the City of Lenox, however, those amounts have been eliminated for financial statement purposes. These financial statements do not reflect any activity or transactions of the City of Lenox and do not present consolidated information.

The Utilities report in accordance with Governmental Accounting Standards and Uniform Systems of Accounts prescribed by the Federal Energy Regulatory Commission and the National Association of Regulatory Utility Commissioners.

2. Measurement Focus and Basis of Accounting

The Utilities operate as enterprise funds which utilize the accrual basis of accounting. The accrual basis of accounting recognizes revenues when earned rather than received. Expenses are recognized when incurred.

The Utilities report their financial activity in accordance with all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as applicable Financial Accounting Standards Board (FASB) pronouncements unless those pronouncements conflict with or contradict GASB pronouncements.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Utilities are charges to customers for sales and services. Operating expenses for the Utilities include the cost of sales and services, administrative expense and depreciation on capital assets.

3. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

LENOX MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2011 and 2010

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

4. Capital Assets and Depreciation

The straight-line method is used for computing depreciation with lives on machinery and equipment ranging from five to thirty-five years and lives on buildings of fifty years. Cost of labor, materials, supervision and other expenses incurred in making repairs and minor replacements and in maintaining the properties in efficient operating condition are charged to expense. Utility plant accounts are charged with the cost of improvements and replacements of the plant.

5. Accounts Receivable and Revenue Recognition

Billings for electric, water, and communication revenues are rendered monthly. The Utilities do not record unbilled revenues representing estimated consumption for the period between the last billing date and the end of the fiscal year.

At December 31, 2011 and 2010, management considered accounts receivable to be fully collectible and, therefore, these financial statements do not contain an allowance for doubtful accounts.

6. Inventory Valuation

Inventories (materials, supplies and fuel) are valued at the lower of cost or market. Cost is determined on a first-in, first-out method for materials and supplies.

7. Investments

Investments are carried at fair value except for short-term highly liquid investments with maturities of less than one year at the time of purchase. These investments are stated at amortized cost, which approximates fair value. Interest, dividends, and gains and losses, both realized and unrealized, on investments are included in other non-operating revenue when earned.

8. Debt Issue Costs

Costs related to the issuance of debt are recorded as debt issue costs when incurred. Such costs are amortized over the term of the outstanding debt.

9. Purpose of Special Funds

The Utilities have set aside certain assets for specific purposes. The board designated funds represent money designated by the Board of Trustees to be used in the payment of certain potential costs as identified in Note D. The restricted funds, as discussed in Note D, are the result of requirements established in bond issue documents. Use of restricted or unrestricted resources for individual projects is determined by the Utility Board of Trustees based on the facts regarding each specific situation.

LENOX MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2011 and 2010

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

10. Compensated Absences

Utility employees earn vacation hours at varying rates depending on years of service. Vacation time accumulates to a maximum of 160 hours. Any excess over 160 hours is lost. The computed amount of vacation benefits earned by year end is recorded as part of accrued employee compensation.

11. Property Taxes

According to Iowa law, the Electric Utility is required to pay property taxes on transmission lines and related Utility property outside the Lenox city limits. The property taxes are recorded as of the date they become a liability.

12. Cash Equivalents

For purposes of the statement of cash flows, the Lenox Municipal Utilities considers all highly liquid debt instruments purchased with a maturity of less than three months to be cash equivalents.

13. Debt Costs During Periods of Construction

During construction, costs of related debt are accumulated and capitalized. Interest earned on invested debt proceeds is offset against the accumulated debt costs and the net amount is included in capitalized construction costs.

14. Net Assets

Net assets of the Utilities are classified in three components. *Net assets invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the balances of any outstanding borrowings used to finance the purchase of construction of those assets. *Restricted net assets* are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Utilities, including amounts deposited with trustees as required by revenue bond indentures, discussed in Notes G and H. *Unrestricted net assets* are remaining net assets that do not meet the definition of *invested in capital assets net of related debt* or *restricted*.

LENOX MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2011 and 2010

NOTE B - TRANSACTIONS WITH CITY OF LENOX, IOWA

The Utilities act as the billing and collection agent for the City in the collection of sewer fees from the residents of Lenox. This service is provided for a minimal charge to the City.

The Utilities provide electric, water, and communication services to the City of Lenox without charge.

Following is a summary of activity between the Utilities and City during the year:

<u>Water</u>	<u>2011</u>	<u>2010</u>
Sewer Fees Collected for City	\$ <u>161,249</u>	\$ <u>163,843</u>
Charge to City for Sewer Billing Service	\$ <u>5,219</u>	\$ <u>7,308</u>

NOTE C - TRANSACTIONS BETWEEN ELECTRIC, WATER, AND COMMUNICATION FUNDS

Following is information about interfund transactions and amounts due between the Electric, Water, and Communication Funds at December 31:

	<u>2011</u>	<u>2010</u>
Interest income (Electric) and expense (Communication) during the year	\$ <u>654</u>	\$ <u>1,467</u>
Interest bearing note due to Electric from Communication Fund	\$ --	\$ 175,000
Less current portion	<u>--</u>	<u>(175,000)</u>
	<u>\$ --</u>	<u>\$ --</u>
Current portion of interest bearing note due to Electric from Communication Fund	\$ --	\$ 175,000
Interest due to Electric from Communication Fund	<u>--</u>	<u>1,467</u>
Current due to Electric from Communication Fund	<u>\$ --</u>	<u>\$ 176,467</u>

LENOX MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2011 and 2010

NOTE D - SPECIAL PURPOSE FUNDS

Restricted and board designated net assets are available for the following purposes:

Electric Fund

	<u>2011</u>	<u>2010</u>
Restricted by debt resolution for payment of principal and interest:		
Sinking fund	\$ 63,400	\$ 57,200
Reserve fund	<u>60,000</u>	<u>60,000</u>
Total restricted funds	<u>\$ 123,400</u>	<u>\$ 117,200</u>
Board designated for:		
Facility repairs and capital expenditures	<u>\$ 1,218,196</u>	<u>\$ 892,796</u>

Water Fund

	<u>2011</u>	<u>2010</u>
Restricted by debt resolution for payment of principal and interest:		
Sinking fund	\$ 68,780	\$ 52,515
Reserve fund	<u>73,000</u>	<u>73,000</u>
Total restricted funds	<u>\$ 141,780</u>	<u>\$ 125,515</u>
Board designated for:		
Facility repairs and capital expenditures	<u>\$ 146,449</u>	<u>\$ 146,349</u>

Communication Fund

	<u>2011</u>	<u>2010</u>
Restricted by debt resolution for payment of principal and interest:		
Reserve fund	<u>\$ 35,057</u>	<u>\$ --</u>
Board designated for:		
Facility repairs and capital expenditures	<u>\$ 11,387</u>	<u>\$ 163,341</u>

LENOX MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2011 and 2010

NOTE E - DEPOSITS AND INVESTMENTS

The Utilities' deposits at December 31, 2011 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds. The investments are all insured, registered, or held by the Utilities or their agent in the Utilities' name. Investments are stated as indicated in Note A.

The Utilities are authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The composition of restricted and designated assets is as follows:

Electric Fund

	<u>2011</u>	<u>2010</u>
Restricted funds:		
Cash and cash equivalents	\$ <u>123,400</u>	\$ <u>117,200</u>
Board designated funds:		
Cash and cash equivalents	\$ <u>1,218,196</u>	\$ <u>892,796</u>

Water Fund

	<u>2011</u>	<u>2010</u>
Restricted funds:		
Cash and cash equivalents	\$ <u>141,780</u>	\$ <u>125,515</u>
Board designated funds:		
Cash and cash equivalents	\$ <u>146,449</u>	\$ <u>146,349</u>

Communication Fund

	<u>2011</u>	<u>2010</u>
Restricted funds:		
Cash and cash equivalents	\$ <u>35,057</u>	\$ <u>--</u>
Board designated funds:		
Cash and cash equivalents	\$ <u>11,387</u>	\$ <u>163,341</u>

LENOX MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2011 and 2010

NOTE E - DEPOSITS AND INVESTMENTS - Continued

The Utilities' investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Utilities.

NOTE F - CAPITAL ASSETS

Capital assets, additions, disposals, and balances for the years ended December 31, 2011 and 2010 were as follows:

	<u>Balance 2010</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2011</u>
<u>Electric Fund</u>				
Plant and Equipment	\$ 4,004,402	\$ --	\$ 206,709	\$ 3,797,693
Depreciation	(2,259,580)	(103,455)	(206,709)	(2,156,326)
Depreciable Capital Assets, net	<u>\$ 1,744,822</u>	<u>\$(103,455)</u>	<u>\$ --</u>	<u>\$ 1,641,367</u>
	<u>Balance 2009</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2010</u>
<u>Electric Fund</u>				
Plant and Equipment	\$ 4,004,402	\$ --	\$ --	\$ 4,004,402
Depreciation	(2,134,681)	(124,899)	--	(2,259,580)
Depreciable Capital Assets, net	<u>\$ 1,869,721</u>	<u>\$(124,899)</u>	<u>\$ --</u>	<u>\$ 1,744,822</u>

LENOX MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2011 and 2010

NOTE F - CAPITAL ASSETS - Continued

	<u>Balance 2010</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2011</u>
<u>Water Fund</u>				
Plant and Equipment	\$ 2,669,395	\$ --	\$ 35,081	\$ 2,634,314
Depreciation	<u>(1,432,062)</u>	<u>(89,468)</u>	<u>(35,081)</u>	<u>(1,486,449)</u>
Depreciable Capital Assets, net	<u>\$ 1,237,333</u>	<u>\$ (89,468)</u>	<u>\$ --</u>	<u>\$ 1,147,865</u>
Land	<u>\$ 32,000</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 32,000</u>
Non-Depreciable Capital Assets	<u>\$ 32,000</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 32,000</u>
Total Capital Assets, net	<u>\$ 1,269,333</u>	<u>\$ (89,468)</u>	<u>\$ --</u>	<u>\$ 1,179,865</u>
	<u>Balance 2009</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2010</u>
<u>Water Fund</u>				
Plant and Equipment	\$ 2,669,395	\$ --	\$ --	\$ 2,669,395
Depreciation	<u>(1,342,343)</u>	<u>(89,719)</u>	<u>--</u>	<u>(1,432,062)</u>
Depreciable Capital Assets, net	<u>\$ 1,327,052</u>	<u>\$ (89,719)</u>	<u>\$ --</u>	<u>\$ 1,237,333</u>
Land	<u>\$ 32,000</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 32,000</u>
Non-Depreciable Capital Assets	<u>\$ 32,000</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 32,000</u>
Total Capital Assets, net	<u>\$ 1,359,052</u>	<u>\$ (89,719)</u>	<u>\$ --</u>	<u>\$ 1,269,333</u>

LENOX MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2011 and 2010

NOTE F - CAPITAL ASSETS - Continued

	<u>Balance 2010</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2011</u>
<u>Communication Fund</u>				
Plant and Equipment	\$ 1,473,832	\$(38,155)	\$ --	\$ 1,435,677
Depreciation	(120,697)	(46,021)	--	(166,718)
Depreciable Capital Assets, net	<u>\$ 1,353,135</u>	<u>\$(84,176)</u>	<u>\$ --</u>	<u>\$ 1,268,959</u>
	<u>Balance 2009</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2010</u>
<u>Communication Fund</u>				
Plant and Equipment	\$ 1,358,295	\$ 115,537	\$ --	\$ 1,473,832
Depreciation	(66,559)	(54,138)	--	(120,697)
Depreciable Capital Assets, net	<u>\$ 1,291,736</u>	<u>\$ 61,399</u>	<u>\$ --</u>	<u>\$ 1,353,135</u>

In a prior year, an asset on the communication property schedule was placed on the depreciation schedule at the invoice price and recognized in accounts payable. The Utilities were able to negotiate this price to a lower amount recognizing a decrease in cost.

NOTE G - ELECTRIC FUND NON-CURRENT LIABILITIES

A schedule of changes in Electric Fund non-current liabilities for the years ended December 31, 2011 and 2010 follows:

	<u>Balance 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2011</u>
<u>Electric Fund</u>				
2003 Revenue Notes	\$ 175,000	\$ --	\$ 55,000	\$ 120,000
Less Current Portion	(55,000)	(60,000)	(55,000)	(60,000)
Long-Term Debt, net	120,000	(60,000)	--	60,000
Consumer Deposits, net	<u>22,873</u>	<u>--</u>	<u>1,844</u>	<u>21,029</u>
Total Non-Current Liabilities	<u>\$ 142,873</u>	<u>\$(60,000)</u>	<u>\$ 1,844</u>	<u>\$ 81,029</u>

LENOX MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2011 and 2010

NOTE G - ELECTRIC FUND NON-CURRENT LIABILITIES - Continued

<u>Electric Fund</u>	<u>Balance 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2010</u>
2003 Revenue Notes	\$ 230,000	\$ --	\$ 55,000	\$ 175,000
Less Current Portion	(55,000)	(55,000)	(55,000)	(55,000)
Long-Term Debt, net	175,000	(55,000)	--	120,000
Consumer Deposits, net	22,504	369	--	22,873
Total Non-Current Liabilities	<u>\$ 197,504</u>	<u>\$ (54,631)</u>	<u>\$ --</u>	<u>\$ 142,873</u>

Electric Revenue Notes

In 2003, Lenox Municipal Utilities was the sub-recipient of a community development block grant issued to the City of Lenox, Iowa by the Iowa Department of Economic Development. The City of Lenox received CDBG funds in the amount of \$400,000. The City of Lenox entered into a construction and operation agreement and designated the Lenox Municipal Utilities a sub-recipient of the grant money to construct and operate a wind turbine for the benefit of the Lenox community. In conjunction with the construction of the wind turbine, Lenox Municipal Utilities was required to provide all funds in excess of the \$400,000 grant. Electric revenue notes were issued in the amount of \$515,000, to replace construction reserves for extension lines which were used in the construction of the wind turbine. The notes bear interest rates of 1.75% to 4.1% and are payable from the net revenues of the Electric Fund. The electric revenue notes dated May 1, 2003 were issued in \$5,000 denominations or multiples thereof, and mature on May 1 of each year. Interest on the notes are payable semi-annually on May 1 and November 1 of each year the notes are outstanding.

The annual debt service on the notes is expected to require less than 29% of cash flow available for debt service. For the current year, debt service and cash flow for debt were approximately \$60,900 and \$236,800, respectively.

The resolutions of the Board of Trustees authorizing the issuance of the 2003 electric revenue notes specify the creation and maintenance of a sinking fund, a debt service reserve fund. Funding requirements have been fulfilled with the only remaining requirement being monthly accumulation of principal and interest for the next due date. Principal and interest payments required on Electric Fund long-term debt are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 60,000	\$ 3,645	\$ 63,645
2013	<u>60,000</u>	<u>1,230</u>	<u>61,230</u>
	<u>\$ 120,000</u>	<u>\$ 4,875</u>	<u>\$ 124,875</u>

LENOX MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2011 and 2010

NOTE G - ELECTRIC FUND NON-CURRENT LIABILITIES - Continued

The operating agreement provides that the City of Lenox shall repay Lenox Municipal Utilities for the contributions made by Lenox Municipal Utilities to purchase the wind turbine. The City also agreed to reimburse the Utility for amounts which will be adequate for the operation, maintenance, insurance, and long-term equipment repair and replacement cost of the wind turbine generator. The operating agreement is in effect for a period of 20 years from the effective date of the agreement. The agreement provides that at the time of termination of the agreement, the City of Lenox will assign all accompanying responsibilities for the wind turbine generator to Lenox Municipal Utilities.

NOTE H - WATER FUND NON-CURRENT LIABILITIES

A schedule of changes in Water Fund non-current liabilities for the years ended December 31, 2011 and 2010 follows:

<u>Water Fund</u>	<u>Balance 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2011</u>
2006 Revenue Bonds	\$ 929,000	\$ --	\$ 43,000	\$ 886,000
Less Current Portion	(43,000)	(44,000)	(43,000)	(44,000)
Long-Term Debt, net	<u>\$ 886,000</u>	<u>\$(44,000)</u>	<u>\$ --</u>	<u>\$ 842,000</u>
 <u>Water Fund</u>	 <u>Balance 2009</u>	 <u>Additions</u>	 <u>Reductions</u>	 <u>Balance 2010</u>
2006 Revenue Bonds	\$ 970,000	\$ --	\$ 41,000	\$ 929,000
Less Current Portion	(41,000)	(43,000)	(41,000)	(43,000)
Long-Term Debt, net	<u>\$ 929,000</u>	<u>\$(43,000)</u>	<u>\$ --</u>	<u>\$ 886,000</u>

Water Revenue Bonds, Series 2006

On October 6, 2006, Lenox Municipal Utilities issued water revenue bonds in the amount of \$1,150,000 with interest at the rate of 3 percent for the constructing of improvements and extensions to the water distribution system. Interest on the bonds is payable semi-annually on June 1 and December 1 of each year the notes are outstanding. Principal payments on the bonds commenced on June 1, 2008 and are due annually thereafter until paid in full.

The annual debt service on the bonds is expected to require less than 75% of cash flow available for debt service. For the current year, debt service and cash flow for debt were approximately \$70,200 and \$95,300, respectively.

LENOX MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2011 and 2010

NOTE H - WATER FUND NON-CURRENT LIABILITIES - Continued

The resolutions of the Board of Trustees authorizing the issuance of the 2006 water revenue bonds specify the creation and maintenance of a sinking fund and a debt service reserve fund. Funding requirements have been fulfilled with the only remaining requirement being monthly accumulation of principal and interest for the next due date. Principal and interest payments required on Water Fund long-term debt during each of the five years ending December 31, 2012 through 2016 and thereafter are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 44,000	\$ 25,920	\$ 69,920
2013	45,000	24,585	69,585
2014	47,000	23,205	70,205
2015	48,000	21,780	69,780
2016	49,000	20,325	69,325
2017 - 2021	270,000	68,180	338,180
2022 - 2026	315,000	34,425	349,425
2027	68,000	1,020	69,020
	<u>\$ 886,000</u>	<u>\$ 219,440</u>	<u>\$ 1,105,440</u>

NOTE I - COMMUNICATION FUND NON-CURRENT LIABILITIES

A schedule of changes in Communication Fund non-current liabilities for the years ended December 31, 2011 and 2010 follows:

<u>Communication Fund</u>	<u>Balance 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2011</u>
2011 Revenue Notes	\$ --	\$ 1,540,000	\$ --	\$ 1,540,000
2008 Iowa Finance Authority Note	1,335,000	--	1,335,000	--
Less Current Portion	<u>(1,335,000)</u>	<u>--</u>	<u>(1,335,000)</u>	<u>--</u>
Long-Term Debt, net	<u>\$ --</u>	<u>\$ 1,540,000</u>	<u>\$ --</u>	<u>\$ 1,540,000</u>
<u>Communication Fund</u>	<u>Balance 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2010</u>
2008 Iowa Finance Authority Note	\$ 1,335,000	\$ --	\$ --	\$ 1,335,000
Less Current Portion	<u>--</u>	<u>(1,335,000)</u>	<u>--</u>	<u>(1,335,000)</u>
	<u>\$ 1,335,000</u>	<u>\$(1,335,000)</u>	<u>\$ --</u>	<u>\$ --</u>

LENOX MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2011 and 2010

NOTE I - COMMUNICATION FUND NON-CURRENT LIABILITIES - Continued

Lenox Municipal Utilities issued Communications Revenue Loan Agreement Anticipation Refunding Project Notes, Series 2011, dated May 1, 2011, in the amount of \$1,540,000 for the purpose of refinancing the 2008 Iowa Finance Authority Note and the note payable to Electric Fund. Interest is payable on May 1 and November 1 of each year until paid. The note bears interest at the rate of 2.0%. Debt service payments are payable solely from the net revenues of the communication system. The notes mature May 1, 2014.

Lenox Municipal Utilities entered into a note payable on May 8, 2008 in the amount of \$1,335,000 for the purposes of paying the costs of constructing a Municipal Communications System. Interest was payable on May 1 and November 1 of each year until paid. The note had an interest rate of 3.50%. Debt service payments were payable solely from the net revenues of the communication system. The note matured May 1, 2011.

The annual debt service on the notes is expected to require approximately 100% of cash flow available for debt service. For the current year, debt service and cash flow for debt were approximately \$40,400 and \$(84,100), respectively.

Principal and interest payments required on Communication Fund long-term debt are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ --	\$ 30,800	\$ 30,800
2013	--	30,800	30,800
2014	<u>1,540,000</u>	<u>15,400</u>	<u>1,555,400</u>
	<u>\$ 1,540,000</u>	<u>\$ 77,000</u>	<u>\$ 1,617,000</u>

LENOX MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2011 and 2010

NOTE J - PENSION AND RETIREMENT BENEFITS

Iowa Public Employees Retirement System

The Utilities contribute to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 4.50% (5.38% effective July 1, 2011) of their annual salary and the Utilities are required to contribute 6.95% (8.07% effective July 1, 2011) of annual covered payroll. Contribution requirements are established by State statute. The Utilities' contributions to IPERS for the years ended December 31, 2011, 2010, and 2009, were approximately \$48,900, \$43,900, and \$41,100, respectively, equal to the required contributions for each year.

NOTE K - DEFERRED COMPENSATION PLAN

The Utilities offers its employees a deferred compensation plan as allowed by Internal Revenue Code Section 457 through the ICMA Retirement Corporation's Deferred Compensation Plan. The Plan allows Utilities employees to defer a portion of their current salary until future years. The Utilities' accounting and personnel departments are responsible for the accounting, reconciliations and record keeping associated with employees' enrollment, payments to the plan through payroll deductions, and timely transfer of withheld funds to the independent contractor for investment. The plan is designed so that each participant retains investment control of his/her individual account. The employees become eligible to withdraw funds upon termination, retirement, death or unforeseeable emergency.

The Utilities' fiduciary responsibility is limited to due care in selecting contractors to administer the Plan. These contractors are responsible for withholdings and W-2s when the participants receive payments. The contractors are also required to submit an annual report to the Utilities. The Utilities is liable to a participant only for income lost because of its failure to send payment of a deferred amount as directed by the participant.

The market value of the exclusive benefit plan assets at December 31, 2011 was approximately \$115,100 (\$112,600 at December 31, 2010). This amount is not included in the financial statements since the Utilities does not own or hold in a trustee capacity the amounts deferred by employees and related income on those amounts.

LENOX MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2011 and 2010

NOTE L - COMMITMENTS AND CONTINGENCIES

Risk Management

The Utilities are exposed to common business risks of loss. These risks are covered to the extent practical by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Off Balance Sheet and Concentration of Credit Risk

Accounts receivable are due for electric, water, and communication charges to customers of Lenox, Iowa and the surrounding area. None of the receivables are collateralized. To date, these concentrations of credit risk have not had an adverse effect on the results of operations of the Utilities.

Environmental Regulations

The Utilities are subject to various federal and state environmental regulations. These regulations are continuously revised and updated, resulting in ongoing compliance requirements. Management has determined that the facility is currently in compliance with the applicable regulations. The Utilities anticipate that any future cost incurred relating to environmental regulations will be recovered through rates charged to customers.

Other Post Employment Benefits (OPEB)

Plan Description: As required by state law, the Utilities offers health insurance to former employees who have retired after age 55, but have not reached Medicare eligibility. The fully insured plan is a part of the plan offered to all Utilities employees, and the retirees must pay a health insurance premium equal to that charged for current employees. There are approximately 10 active employees and no retired employees currently covered by the plan.

Potential for Liability: A review of the Utilities' current and potential future exposure to this requirement resulted in the conclusion that no material liability exists. Therefore no liability has been recorded.

Subsequent Events

The Utilities has evaluated all subsequent events through March 2, 2012, the date the financial statements were available to be issued.

NOTE M - RECLASSIFICATIONS

Certain amounts or presentations in the December 31, 2010 statements may have been reclassified to conform to the December 31, 2011 presentation. Ending net assets remained unchanged as a result of any reclassifications.

* * *

REQUIRED SUPPLEMENTARY INFORMATION

LENOX MUNICIPAL UTILITIES
Budgetary Comparison Schedule
Year Ended December 31, 2011

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Auditing Standards. In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following required public notice and hearings. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures. The following is a reconciliation between reported amounts and the modified accrual basis used to prepare the budget. The adjustments result from accounting for debt payments and net assets differently for financial statement and budget purposes.

	Per Financial Statements			Budget	Combined
	Electric	Water	Communication	Adjustments	Utilities
Revenues	\$ 1,634,140	\$ 728,557	\$ 499,693	\$ --	\$ 2,862,390
Expenses	<u>1,522,226</u>	<u>748,218</u>	<u>670,506</u>	<u>98,000</u>	<u>3,038,950</u>
Net	111,914	(19,661)	(170,813)	(98,000)	(176,560)
Balance beginning of year	<u>2,931,278</u>	<u>655,127</u>	<u>10,677</u>	<u>(717,601)</u>	<u>2,879,481</u>
Balance end of year	<u>\$ 3,043,192</u>	<u>\$ 635,466</u>	<u>\$ (160,136)</u>	<u>\$ (815,601)</u>	<u>\$ 2,702,921</u>

	Budget Basis	Budget	Variance Favorable (Unfavorable)
Revenues	\$ 2,862,390	\$ 3,097,198	\$ (234,808)
Expenses	<u>3,038,950</u>	<u>2,805,400</u>	<u>(233,550)</u>
Net	(176,560)	291,798	(468,358)
Balance beginning of year	<u>2,879,481</u>	<u>2,879,481</u>	<u>--</u>
Balance end of year	<u>\$ 2,702,921</u>	<u>\$ 3,171,279</u>	<u>\$ (468,358)</u>

See Independent Auditor's Report.

COMMENTS AND RECOMMENDATIONS

Gronewold, Bell, Kyhnn & Co. P.C.

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Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Trustees
Lenox Municipal Utilities
Lenox, Iowa

We have audited the financial statements of Lenox Municipal Utilities (a component unit of the City of Lenox, Iowa) as of and for the year ended December 31, 2011, and have issued our report thereon dated March 2, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lenox Municipal Utilities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Lenox Municipal Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Utilities' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and, therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Utilities' financial statements will not be prevented or detected and corrected on a timely basis.

To the Board of Trustees
Lenox Municipal Utilities

A significant deficiency is a deficiency or combination of deficiencies in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item 11-I-A to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lenox Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted a certain immaterial instance of non-compliance or other matter that is described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended December 31, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Lenox Municipal Utilities' responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusion on the Utilities' responses, we did not audit the Utilities' responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of Lenox Municipal Utilities and other parties to whom the Utilities may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Gronewold, Ben, Kohn & Co. P.C.

Atlantic, Iowa
March 2, 2012

LENOX MUNICIPAL UTILITIES
Schedule of Findings
Year ended December 31, 2011

PART I - INTERNAL CONTROL DEFICIENCIES

11-I-A Segregation of Duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Utilities. However, this situation is common in small municipal utilities.

Recommendation: We recognize that it may not be economically feasible for the Utilities to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the Board be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Utilities to employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

* * *

PART II - REQUIRED STATUTORY REPORTING

11-II-A Certified Budget: Disbursements during the year ended December 31, 2011 exceeded the amounts budgeted.

Recommendation: The budget should have been amended in accordance with Chapter 331.435 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response: The budget will be amended in the future, if applicable.

Conclusion: Response accepted.

11-II-B Questionable Expenditures: During the audit, we noted no expenditures of the Utilities' funds without proper documentation of public purpose.

11-II-C Travel Expense: No expenditures of Utilities' money for travel expenses of spouses of Utilities' officials and/or employees were noted.

11-II-D Business Transactions: No business transactions between the Utilities and Utilities' officials and/or employees were noted.

11-II-E Bond Coverage: Surety bond coverage of the Utilities' officials and employees appears to be in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

LENOX MUNICIPAL UTILITIES
Schedule of Findings - Continued
Year ended December 31, 2011

PART II - REQUIRED STATUTORY REPORTING (Continued)

11-II-F Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.

11-II-G Deposits and Investments: We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Utilities' investment policy.

11-II-H Revenue Bonds and Notes: No violations of revenue bond or revenue note resolution requirements were noted.

11-II-I Telecommunications Services: No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.

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